

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
1998 Biennial Regulatory Review --)	CC Docket No. 98-137
Review of Depreciation Requirements)	
For Incumbent Local Exchange Carriers)	
Forbearance From Depreciation Regulation)	ASD Docket No. 98-91
of Price Cap Local Exchange Carriers)	

COMMENTS OF GTE

Dated: November 23, 1998

Respectfully submitted,

GTE Service Corporation and its affiliated
domestic telephone operating companies

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COMMENTS OF GTE

GTE Service Corporation and its below-listed affiliates¹ (collectively "GTE") respectfully submit their comments in response to the Commission's Notice of Proposed Rulemaking ("NPRM"), CC Docket No. 98-137, issued in the above-captioned proceeding. GTE completely agrees with the Commission's observation that the current depreciation prescription process is a prime candidate for biennial regulatory review.² After three successive *Depreciation Simplification Orders*, the time has finally arrived for the Commission to take the ultimate simplification step and eliminate depreciation regulation entirely.

¹ GTE Alaska, Incorporated, GTE Arkansas Incorporated, GTE California Incorporated, GTE Florida Incorporated, GTE Hawaiian Telephone Company Incorporated, The Micronesian Telecommunications Corporation, GTE Midwest Incorporated, GTE North Incorporated, GTE Northwest Incorporated, GTE South Incorporated, GTE Southwest Incorporated, Contel of Minnesota, Inc., GTE West Coast Incorporated, and Contel of the South, Inc.

² NPRM at ¶ 2.

I. INTRODUCTION AND SUMMARY

The NPRM proposes that additional simplification of the depreciation regulatory process is appropriate provided that incumbent local exchange carriers ("ILECs") use depreciation factors that are within the ranges adopted by the Commission. The NPRM proposes to expand the range for digital switching equipment and to eliminate the future net salvage component from the depreciation rate calculation. Last, the FCC seeks comment on a proposal to eliminate depreciation regulation completely if ILECs waive the low-end adjustment.

The FCC should cease regulating the depreciation rates that ILECs use for regulatory accounting. ILECs should be allowed to employ the same rates for regulatory accounting that they use for financial reporting. For those areas where the Commission has raised specific concerns, such as price cap formula calculations and the universal service cost model, ILECs' actual forward-looking economic depreciation rates should be used in place of FCC-prescribed depreciation rates. In the alternative, depreciation factors based on competitive averages should be used as surrogates.

II. DISCUSSION

A. The Notice extends and perpetuates the Commission's oversight of depreciation regulation beyond its usefulness and continues to disadvantage ILECs in an era of expansive competition.

1. Past depreciation simplification orders have failed to provide substantial relief.

Three times previously this decade the Commission has released depreciation simplification orders. Each order required the accumulation of the same massive amounts of data that have been required for the past twenty years. The only changes

resulting from these orders were the addition of life ranges that ILECs could use if "sufficient" data was provided. GTE acknowledges that filing requirements of more than six hundred (660) pages have been reduced to an average requirement of 170 pages over a ten-year period. However, corporations like GTE that must compete for their livelihood in the highly technical and competitive communications industry view this "progress" as too little too late.

Like the previous simplification orders, the rules proposed in the NPRM would provide very little simplification of actual work activities. GTE believes that the Commission should recognize that depreciation oversight is no longer needed. Accordingly, as discussed below, GTE urges the Commission to eliminate depreciation regulation entirely.

2. Eliminating depreciation rate prescription is consistent with statutory changes enacted in the 1996 Act and with statements made by past and present FCC Commissioners.

In adopting the Telecommunications Act of 1996 ("the 1996 Act"), Congress recognized that significant regulatory change must occur in order to promote and accommodate a competitive marketplace. To ensure that all regulations are periodically reviewed and that unnecessary requirements are eliminated, Congress enacted Section 11 which requires the FCC to perform a biennial review of all regulations. More importantly to the instant proceeding, Congress substantially and significantly changed Section 220(b) to unambiguously give the Commission the

discretion to stop regulating depreciation.³ GTE believes that the biennial review together with the changes to Section 220(b) provide an opportunity to the Commission to dramatically simplify the depreciation regulation process by eliminating it altogether.

More than two years ago, Commissioner Chong, in a separate statement accompanying a Commission depreciation order, stated, "[s]hould the Commission ultimately adopt such a regime [one in which the sharing mechanism is eliminated], and should Congress amend Section 220(b) of the Communications Act, the agency should no longer need to prescribe depreciation rates."⁴ Although almost three years have passed since Commissioner Chong made her statement, and even though both conditions have come to pass, nothing has changed.

Similarly, two years later, Commissioner Furchtgott-Roth stated:

The Commission's authority to prescribe depreciation rates is merely a vestige of outdated rate-of-return regulation. Prior to 1996, Congress directed the FCC to prescribe depreciation rates for carriers. The Telecommunications Act of 1996 amended Section 220(b) to afford the Commission the discretion to prescribe such rates but only where appropriate. In today's increasingly competitive environment, there should be no need for the Commission to continue to dictate, even through revised streamlined procedures, depreciation rates or the factors that may be used to compute such rates. At a minimum, in a system of pure price cap regulation, the depreciation rate requirements -- and the

³ 47 U.S.C. § 220(b) states "[t]he Commission may prescribe for such carriers as it determines to be appropriate, the classes of property for which depreciation charges may be properly included under operating expenses, and the percentages of depreciation which shall be charged with respect to each of such classes of property, classifying the carriers as it may deem proper for this purpose. (Emphasis added.)

⁴ The Prescription of Revised Percentages of Depreciation pursuant to the Communications Act of 1934, *Memorandum Opinion and Order*, 11 FCC Rcd 12312, 12359 (1996).

accompanying remnants of cost-of-service regulation such as the Commission's low-end adjustment procedures -- would be unnecessary and should be eliminated for the larger carriers. I commend the Common Carrier Bureau for targeting this rule for a thorough evaluation in the coming biennial review process. I urge, and specifically encourage parties to request, that the Commission use this year's first biennial review to eliminate its rules and regulations regarding depreciation expenses and other related relics of rate-of-return regulation.⁵

Unfortunately, the Commission's response to Commissioners Chong and Furchtgott-Roth, the instant NPRM, proposes more illusory changes and would maintain unnecessary regulatory oversight.

3. The NPRM would not substantially reduce depreciation rate regulation or the burdens such regulations impose unilaterally on ILECs.

The NPRM does not simplify the depreciation process. Under the rules proposed therein, ILEC studies still will be required with the same amount of data gathering and processing as has been required in all past studies. Moreover, like previous depreciation orders, the instant NPRM unreasonably encumbers ILECs with costs and inefficiencies that are borne by no other class of carrier. For example, GTE's current, regulatory-imposed depreciation reserve deficit, as of January 1, 1998, is in excess of 6 billion dollars. This depreciation reserve deficit is the direct result of the current prescriptive process denying GTE the opportunity to use depreciation lives consistent with those used by GTE for financial accounting. GTE's strongest and most

⁵ Cincinnati Bell Telephone Company, Southwestern Bell Telephone Company, and U S West Communications, Inc. Prescription of Revised Depreciation Rates, *Memorandum Opinion and Order*, FCC 98-11 13 FCC Rcd 6221, 6233 (separate statement of Commissioner Furchtgott-Roth) (1998).

financially sound competitors do not labor under this selectively imposed burden, and neither should GTE and its customers.

Not surprisingly, the continued use of FCC-derived depreciation rates in both the interstate and intrastate arenas is supported by large, well-financed competitors like AT&T and MCI/WorldCom. As noted above, these competitors have the ability to set their own depreciation rates and, in fact, choose rates that are markedly lower than those rates prescribed for the ILECs. As such, companies in direct competition with GTE and other ILECs are able to avoid the cost burdens imposed by depreciation regulation.

The additional costs resulting from having to accommodate the Commission's depreciation rules are real. To illustrate, at the state level, the majority of GTE's intrastate investment is no longer subject to regulation that ultimately bears no relationship to economic lives. Because state regulatory agencies allow GTE to set intrastate depreciation rates on the majority of its investment without providing regulators massive amounts of data, GTE has been able to reduce its state depreciation study staff by more than eighty percent over the past three to four years. There are also substantial legal and consulting expenses that are no longer required at the state level.

GTE believes that eliminating federal depreciation regulation would bring similar cost savings to companies and ultimately to their customers. GTE urges the Commission to adopt the policies favored in numerous forward-looking states and to remove itself from the business of micro-managing the depreciation rate process. GTE submits that the Commission should cease looking for reasons to continue to regulate

depreciation and begin to acknowledge that continued regulation serves no purpose for ILECs, the Commission, or the millions of customers that receive little or no benefit from the process.

- B. There is no need to tie depreciation regulation to the level of local exchange competition.**
 - 1. The perceived relationship between market power and depreciation regulation is tenuous at best and irrelevant in any event.**

In the NPRM, the Commission displays flawed logic in proposing to retain depreciation regulation for ILECs. For companies like GTE, price cap regulation has effectively eliminated the direct link between cost and price regulation. Yet, in an apparent effort to forestall elimination of depreciation regulation, the Commission highlights specific concerns that exist relative to calculations in the federal price-cap mechanism and for universal service cost modeling.⁶ Rather than directly confronting these concerns, however, the Commission introduces an erroneous linkage between the level of competition and the timing with which it would be appropriate to eliminate depreciation prescription. The Commission's NPRM implicitly assumes that prices are a function of depreciation and that ILECs somehow will be able to exert market power by sustaining supracompetitive prices if economic depreciation was employed.

Contrary to the Commission's analysis, however, depreciation rates do not affect the manner in which firms set prices. A rational firm sets prices so as to maximize its

⁶ Specifically, the Commission suggests that depreciation remains significant to the following price-cap calculations (1) low-end adjustment, (2) productivity factor, (3) exogenous cost determination, and (4) Base Factor Portion, and (5) requisite cost support when the API exceeds the PCI. NPRM at ¶ 6.

economic profit. A firm's optimal prices depend on supply and demand conditions. The rate of depreciation chosen for financial reporting purposes does not affect the real cash flow or economic profit of the firm, so optimal prices are independent of the path chosen for reflecting depreciation in the accounting journals.

By contrast, market power is the ability to sustain prices above competitive levels, and the federal price-cap mechanism is the means by which the Commission regulates ILEC prices. It is the Commission's price regulation that constrains the ability of price-cap carriers to exercise market power, not the effect of any regulation of costs or depreciation rates. While the Commission highlights specific concerns where the prescribed depreciation rate may affect parts of the federal price-cap and universal service mechanisms, these may be addressed in a targeted manner. Notwithstanding those limited concerns, the Commission's implication that a demonstration concerning market power is necessary concerning depreciation prescription is misplaced at best.

2. The Commission must acknowledge the expansion of competitive entry in local markets.

Although the Commission has correctly determined that depreciation regulation is a candidate for the biennial review process, it has introduced a new and unrelated requirement for retaining regulatory oversight -- local exchange market competition.⁷ As explained above, however, the existence, or the lack thereof, of competition is irrelevant to the perceived need for depreciation prescription. Nonetheless, assuming,

⁷ "As soon as robust competition exists in the local exchange markets, we believe our depreciating process should be eliminated because it will be unnecessary." NPRM at ¶ 7.

arguendo, that the level of competition has some relevance in the Commission's evaluation of the proper level of depreciation regulation, the Commission must take notice of the increasing level of competition in the local exchange market.

As an initial matter, GTE notes that the Commission has not performed the kind of analysis necessary to properly evaluate competition in the local exchange market. In the NPRM, the Commission cites 1996 shares of revenue for the entire local exchange market as evidence of a purported lack of competition in the local exchange market.⁸ GTE submits, however, that market share is not the only factor that should be evaluated to determine the level of competition in a particular market. The Commission has previously addressed the issue of how to assess the level of competition in a market. Thus, in 1991, in evaluating the level of competition in the interexchange marketplace, the Commission considered the following primary factors: (1) demand elasticity; (2) supply elasticity; (3) the relationship of AT&T's prices to its price cap; (4) AT&T's market share; (5) relative cost structures of AT&T and its competitors; and (6) AT&T's size and resources.⁹ Consistent with its past policy, then, prior to determining whether GTE or any other ILEC possesses market power, the Commission must, at minimum, undertake an evaluation of the other relevant factors previously recognized.

An evaluation of current market conditions demonstrates that local exchange competition is increasing dramatically. The 1996 Act has substantially removed barriers

⁸ NPRM at n. 33.

⁹ Competition in the Interstate Interexchange Marketplace, *Report and Order*, CC Docket No. 90-132, 6 FCC Rcd 5880, 5885-92 (1991).

to entry into local markets for competitors of all sizes. GTE has already executed well over 1000 interconnection agreements with competitive LECs ("CLECs"). Resale is a particularly quick and easy way for even smaller entities to offer service. More importantly, many of GTE's competitors are large, well-financed and well-established telecommunications companies -- some of which are already bypassing GTE's network completely.

On June 24, 1998, AT&T took a giant leap toward increasing its presence in the local exchange market with the announcement that it would buy cable giant TCI. The significance of the deal was immediately apparent to analysts and the industry. A CBS MarketWatch report noted that:

Since the passage of the telecommunications reform act in 1996, the company [AT&T] has been seeking a way to enter the local phone market and bypass the regional Bells. TCI, whose cable lines pass into one-third of American homes, gives AT&T that missing link into the so-called last mile -- the phone wiring into American homes and businesses almost entirely controlled by the Baby Bells.¹⁰

GTE already competes with facilities-based providers such as ICI, MFS/WorldCom, MCI, WinStar, AT&T/TCG, Time Warner, e.spire, and the City of Lakeland. Bypass options will become increasingly more common through emerging technologies such as wireless local loop options. WinStar, for instance is a "wireless fiber" company already operating in GTE's markets. As noted in a recent Wall Street Journal article: "WinStar and other wireless service companies could offer the giant

¹⁰ CBS MarketWatch Media Report, June 24, 1998, "AT&T Buys TCI in \$48 Billion Deal."

Bell companies and GTE Corp. their most meaningful competition in luring away phone customers to alternative local services on a massive scale.”¹¹

Likewise, Teligent Inc. offers another example of the competitive threat of emerging technologies. Alex J. Mandl, former AT&T President and now Chairman and CEO of Teligent Inc., recently stated:

It is no accident that the company AT&T decided to buy to jump-start its entry into local markets was Teleport Communications Group, one of the largest of the new facilities-based local competitors. Companies like Teligent, WinStar, and BizTel (now owned by Teleport) today are delivering new broad-band services with technology that was not available even a year or two ago. Real competition is coming to the local telephone market.¹²

Evolving technologies will expand competition in ways that may not be immediately obvious. For instance, Britain's Norweb Communications has invented a “Digital PowerLine” technology that allows telephone calls to travel over electric lines. Ten utilities in Europe and Asia, with a combined reach of 35 million homes, are already testing the system. Northern Telecom, the big Canadian manufacturer of telephone equipment, has joined Norweb as a partner. Some American power providers are considering their own tests. “We are certainly familiar with the technology and are evaluating it,” confirmed a spokesman for FPL Group Inc.'s Florida Power & Light. Of the 1500 inquiries Norweb has received about the system, one third were from U.S.

¹¹ Wall Street Journal, Nov. 10, 1997, page B6.

¹² Wall Street Journal, Jan. 28, 1998, page A18 [emphasis added].

companies.¹³ The competitive threats from all of these sources -- both familiar and emerging -- illustrate the need for the Commission to move quickly and decisively to eliminate prescription of depreciation rates.

3. The FCC should not retain depreciation regulation as a means of implementing price cap or other forms of regulation.

In the NPRM, the Commission states that depreciation regulation is a necessary ingredient in many facets of price cap regulation calculations and for calculating forward-looking economic costs for universal service high cost loop support purposes. It therefore implies that depreciation regulation must be maintained in order to make these calculations.¹⁴ GTE acknowledges that the Commission's concerns regarding the relationship between depreciation and regulatory calculations need to be addressed. However, GTE does not agree that the Commission should continue to prescribe or otherwise regulate depreciation rates in order to facilitate these calculations.

a) In making regulatory calculations, the Commission should use the forward-looking economic depreciation rates that the ILECs actually use for financial reporting purposes.

For calculating the price cap lower bound adjustment, the price cap productivity factor, and the universal service mechanism, and for any possible cost support in the event of an above-band price cap filing,¹⁵ the Commission should use the forward-

¹³ Wall Street Journal, July 2, 1998, "Garage Tinkering Yields an Electrifying Breakthrough."

¹⁴ NPRM at ¶ 6.

¹⁵ The Commission's concerns in this regard should be tempered by the fact that, to GTE's knowledge, no ILEC has submitted an above-band filing.

looking economic depreciation rates that the ILECs actually use for financial reporting purposes.¹⁶ The factors the ILECs use for financial reporting, based upon Generally Accepted Accounting Principles ("GAAP"), should be acceptable for these purposes.

The economic life of an asset is the period of time over which that asset is used to provide economic value. Historically, regulatory commissions prescribed asset lives based on the assumptions that there would be little or no competition, and that technological innovation would continue at a constant pace. Before competition, GTE was able to keep old assets on the books, even after their economic life had expired, because depreciation rates were based upon artificially long asset lives. Basing depreciation rates on long asset lives yielded lower depreciation rates and a longer period of time over which the asset was depreciated. Thus, the longer depreciation lives helped state commissions to keep consumer prices low.

By contrast, today's market environment -- which will reduce the length of time over which GTE must recover its investment in an asset -- renders the use of artificially long asset lives in calculating depreciation expense unsustainable. In today's marketplace, the increased competition resulting from the changes enacted with the 1996 Act together with the pace of technological change have shortened the period

¹⁶ The Commission's concern about a possible linkage between depreciation and exogenous cost determination is unclear. If, in fact, depreciation affects the exogenous cost determination, GTE suggests that these instances could be handled on a case-by-case basis or there could be a rebuttable presumption that the surrogate factors discussed *infra* would be acceptable. Additionally, the Commission's concern over ILECs' use of interstate depreciation or life and salvage factors when calculating rates for interconnection or unbundled network elements ("UNEs") is equally tenuous.

over which an asset will provide economic value. Accordingly, since 1996, the economic lives GTE has been booking on a financial reporting basis have been based on a forward-looking approach. The economic depreciation methodology underlying GTE's depreciation parameters measures the decline in an asset's value from all causes, placing appropriate emphasis on competition and technological change. For these reasons, GTE urges the Commission to reject a historical-based depreciation approach.

To date three state commissions have adopted depreciation policies allowing GTE to use forward-looking economic depreciation rates. The California Public Utility Commission ("CPUC") endorsed the use of GTE's economic lives, except that the life approved for copper cable is one year less than requested. These lives were ordered to be used in a recent cost study ruling.¹⁷ The CPUC concluded that the economic lives used by GTE and Pacific Bell for external financial reporting were the appropriate forward-looking lives for cost studies. The CPUC rejected the suggestion by AT&T and others that FCC-prescribed lives are forward-looking.

The Michigan and Missouri Public Service Commissions have also adopted GTE's recommended economic depreciation parameters. In adopting GTE's economic lives, the Missouri Commission stated: "Staff's goal has been to recommend depreciation rates based on parameters that GTE is likely to experience for financial

¹⁷ California Public Utilities Commission Decision No. D.96-08-021, August 2, 1996, in Rule Making R.93-04-003, I.93-04-002.

purposes so as to fully recover its long-run capital costs in a timely fashion."¹⁸ Similarly, the Michigan Commission approved the use of GTE's economic lives in a February 25, 1998 order. There, in rejecting proposals made by AT&T and MCI, the Michigan Commission stated:

GTE proposes to reduce its asset lives in accordance with their economic lives....The Staff's view is that GTE's proposed asset lives are largely consistent with a forward-looking approach and are reasonable....The Commission finds that GTE's proposal related to depreciation is appropriate for TSLRIC purposes....The Commission further finds AT&T/MCI's proposal to be insufficiently forward looking for purposes of a TSLRIC study.¹⁹

b) Alternatively, the Commission could use surrogate depreciation rates to address concerns that oversight is necessary for specific price cap applications.

In the alternative, the Commission could establish surrogates based on an average of the depreciation factors employed for comparable equipment by large, unregulated competitors to the ILECs. For switching and transmission equipment, rates for ILECs could be based on an average of those used by the top interexchange carriers. Similarly, depreciation rates for loop plant could be based on an average of the top cable multiple service operators.

Comparing GTE's economic lives to the lives AT& demonstrates that the economic lives used by GTE are reasonable. Indeed, the economic lives employed by

¹⁸ Case No. TO-97-63, Missouri Public Service Commission Final Arbitration Order, issued July 31, 1997, Attachment C at 76.

¹⁹ Michigan Docket No. U-11281, February 15, 1998, Order, Section d.

GTE are not as short as those used by AT&T.²⁰ For example, AT&T uses 9.7 years for Digital Switching compared to 10 years recommended by GTE. AT&T uses 7.2 years for Circuit equipment compared to 8 years recommended by GTE. AT&T uses 3.4 to 15 years for Copper Cable compared to the 15 years recommended by GTE. Finally, both AT&T and GTE use 20 years for Fiber Cable.

Similarly, the economic lives used by GTE are not as short as those used by Cable TV operators. The Commission adopted a flexible range of lives to be used by Cable TV operators seeking to justify depreciation rates in cost of service filings.²¹ The useful lives adopted for distribution facilities were 10 to 15 years. This range was developed from a statistical analysis of lives Cable TV operators use for their own facilities. The 15 year economic life for copper cable and the 20 year life for fiber cable selected by GTE are not as short as the lives within the FCC allowed range for Cable TV distribution facilities.

c) Calculation of the Base Factor Portion presents unique issues.

The Commission expresses concern that the Base Factor Portion ("BFP") calculation will be impacted by changes to the depreciation rules.²² Specifically, the

²⁰ Prescription of Revised Percentages of Depreciation, FCC No. 95-32, *Memorandum Opinion and Order*, 10 FCC Rcd 2382 (1995).

²¹ Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992: Rate Regulation, MM Docket No. 93-215, and Adoption of a Uniform Accounting System for Provision of Regulated Cable Service, CS Docket No. 94-28, *Second Report and Order, First Order on Reconsideration, and Further Notice of Proposed Rule Making*, 11 FCC Rcd 2220 (1996).

²² NPRM at ¶ 6.

implicit concern is that higher depreciation rates will cause the BFP to rise, resulting in higher subscriber line charges ("SLCs") for some consumers. GTE has long advocated allowing SLCs to rise to their economic level, and then be capped at Commission-directed affordability levels. The residual should then be recovered through the universal service fund. The Commission's regulation of depreciation is yet another example of how implicit subsidies are being permitted to continue in access charges. As is the case with universal service, low-end adjustment, and the productivity factor, GTE submits that an ILEC's use of its own forward-looking economic lives or industry-wide surrogates in the BFP calculation is appropriate and preferable to continued implicit subsidy regulation.

C. If the Commission insists on continuing to regulate depreciation, it should adopt streamlined treatment for ILECs selecting depreciation rates within prescribed ranges.

While GTE urges the Commission to eliminate depreciation regulation entirely, the track record of small, incremental simplification orders suggests that there is a predilection for maintaining unnecessary regulatory oversight. Further, the Commission has been inclined to require ILECs choosing depreciation rates at the lower boundaries of the prescribed ranges to submit substantial and burdensome filings to justify these lower rates. Indeed, even within the framework of this NPRM, the reduced requirement of filing four summary exhibits is accompanied by the requirement to file the electronic data files used to generate the exhibits. This is the same procedure that exists today with the exception that there is not a requirement to print the files.

The NPRM states that "if a carrier selects depreciation factors from within the ranges for all of its accounts, the Commission would permit the rates to go into effect

without a prescription order."²³ GTE submits that ILECs selecting depreciation rates anywhere within the prescribed ranges should receive streamlined treatment. Further, the Commission must establish a rebuttable presumption of legality for any choice that falls within an existing approved range. ILECs should not be subjected to additional scrutiny simply because they choose to exercise their rights to select a rate that is within the prescribed range.

D. The Commission should not eliminate the Future Net Salvage component of the depreciation rate calculation formula.

In the NPRM, the Commission proposes to eliminate the Future Net Salvage factor from the depreciation formula and to record salvage and cost of removal as a current expense in the period incurred. In the alternative, the Commission proposes to make eliminating salvage from the depreciation formula optional, allowing the LECs to treat net salvage as either a current expense or a component of depreciation.²⁴

GTE urges the Commission to defer any decision on the accounting for Salvage and Cost of Removal until the Financial Accounting Standards Board ("FASB" or "Board") has an opportunity to finalize their proposed exposure draft ("ED"). The original ED entitled *Accounting for Certain Liabilities Related to Closure or Removal of Long-Lived Assets*, was issued February 1996, and is due to be reissued the first quarter of 1999. The Board will focus on developing liability recognition guidance that is consistent with the definition and characteristics of a liability in FASB Concepts

²³ NPRM at ¶ 10.

²⁴ NPRM at ¶ 14.

Statement No. 6, Elements of Financial Statements. Accordingly, entities will be required to recognize a liability for an asset retirement obligation as the obligation is incurred and, concurrently be required to recognize the associated retirement costs as part of the related long-lived asset. The capitalized asset retirement costs will then be depreciated with the associated assets.

The Commission proposes to eliminate a complex and inexact depreciation process without regard to the proposed GAAP changes likely to occur in the near future. While the Commission proposes recording cost of removal as a current expense, the FASB is recommending a liability be recognized for an asset retirement obligation when that obligation is incurred. These accounting methods contradict one another. Thus, if both rulings were issued as proposed, separate record keeping would be required for the same accounting event. GTE believes that the Commission should defer the proposed treatment of Salvage and Cost of Removal until it is possible to evaluate the impacts the ED will have on the FCC's proposed accounting changes. At a minimum, each LEC should be provided the option to treat net salvage as either a current expense or a component of depreciation, thereby providing the carriers the flexibility to apply the proposed GAAP standards without the burden of dual recordkeeping.

E. GTE supports USTA's Petition for Forbearance from Depreciation Regulation of Price Cap Local Exchange Carriers.

On September 21, 1998, the United States Telephone Association ("USTA") filed

a Petition for Forbearance²⁵ under Section 10 of the 1996 Act. The USTA is seeking forbearance from enforcing Sections 32.2000(g) and (h) and 43.3 of the Commission's rules, which address depreciation accounting and reporting, and from conducting depreciation prescription proceedings pursuant to Section 220(b) of the Communications Act.

GTE agrees with USTA that forbearance from regulating depreciation satisfies the three-pronged test set forth in Section 10 of the 1996 Act. First, GTE's comments responding to the NPRM support USTA's contention that there is no link between depreciation prescriptions and an ILEC's prices or any other activities. Thus, regulation of depreciation is not necessary to ensure that ILEC charges, practices, classifications, regulations, or other activities are just and reasonable and are not unjustly or unreasonably discriminatory.

Second, USTA submits that regulation of depreciation places unnecessary burdens on ILECs which, in turn, harms consumers rather than protects them. GTE has shown above that when state regulators allow GTE to set its own economic lives without mountains of supporting documentation, GTE has been able to reduce its costs of complying with intrastate depreciation regulation by more than eighty percent.

Finally, GTE agrees with USTA that the public interest is best served when all involved parties operate at optimum efficiencies. Forbearance from depreciation

²⁵ In the Matter of Forbearance From Depreciation Regulation of Price Cap Local Exchange Carriers, Petition for Forbearance, ASD Docket No. 98-91, filed September 21, 1998.

regulation reduces cost and efficiency for all participants. If the Commission were to forbear from depreciation regulation, ILECs would not spend time and resources justifying their rates, the Commission would not need to devote valuable resources verifying the ILECs' rates, and interexchange carriers would no longer need to devote resources to challenging the ILECs' rates. The end result would be lower overall rates for consumers.

GTE supports the USTA Petition and urges the Commission to grant forbearance from regulating depreciation.

III. CONCLUSION


GTE urges the Commission to cease prescribing depreciation rates. GTE's comments in this proceeding provide the Commission with reasonable alternatives to the prescriptive depreciation rate setting procedures currently burdening the entire industry. Adopting GTE's recommendations, coupled with granting USTA's Petition, will send a strong and clear signal that the biennial review mandate is real, working, and effective. The time has come for the Commission to stop attempting to adopt ineffective incremental depreciation simplification orders and to eliminate depreciation regulation altogether.

Dated: November 23, 1998

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